



U.S. SEARCH ENGINE PERFORMANCE REPORT



Q2
2009

An Efficient Frontier Research Paper

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Introduction

During Q2 2009, as the economy slowed its freefall, Search Engine Marketing stabilized in the U.S. from a series of accelerating declines. Efficient Frontier's data shows that the rate of decline in total spend year-over-year (YOY) lessened over the past two quarters. Furthermore, spend remained relatively stable both on a quarter-over-quarter (QOQ) and month-over-month basis.

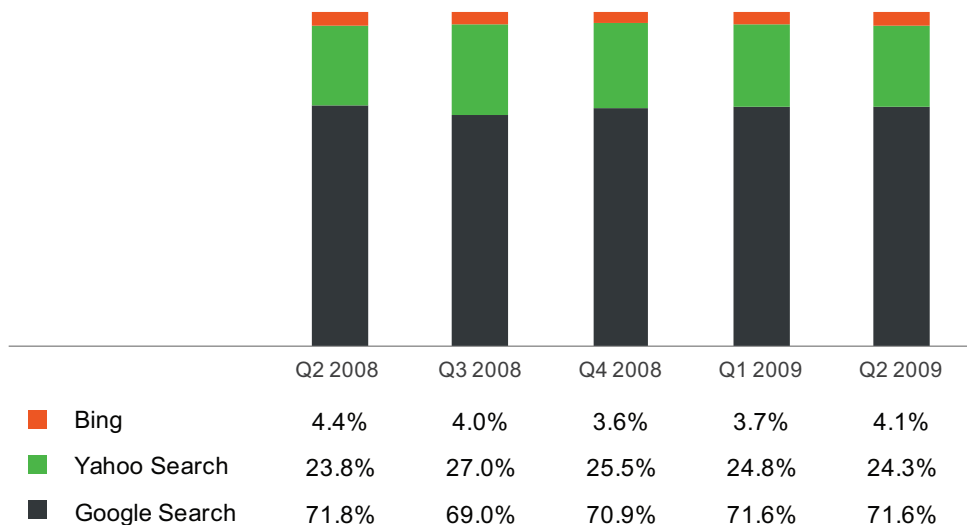
A deeper look at our data shows that an aggregate market stabilization masks very different trends by advertiser size. Large advertiser trends matched the total market showing a stabilization in spend. Medium sized advertisers increased spend, capitalizing on the opportunity to grow share efficiently, given the less competitive marketplace and greater access to marketing resources compared to smaller advertisers. And smaller advertisers continued to slow spend.

Advertisers remain focused on efficiency, working to meet or grow campaigns at lower investment levels. Advertisers are using more aggressive return on investment (ROI) and cost-per-acquisition (CPA) targets to ensure higher SEM efficiencies. As a result, cost per clicks are down resulting in a search market that is operating at a 30% higher efficiency rate YOY. However, search engine efficiencies varied significantly; Google's ROI rose dramatically while Yahoo! saw a moderate decline in efficiency. With search engine click opportunities consistent both YOY and QOQ, the variances in efficiency will likely drive spend allocation changes in favor of a more efficient Google in the coming quarters.

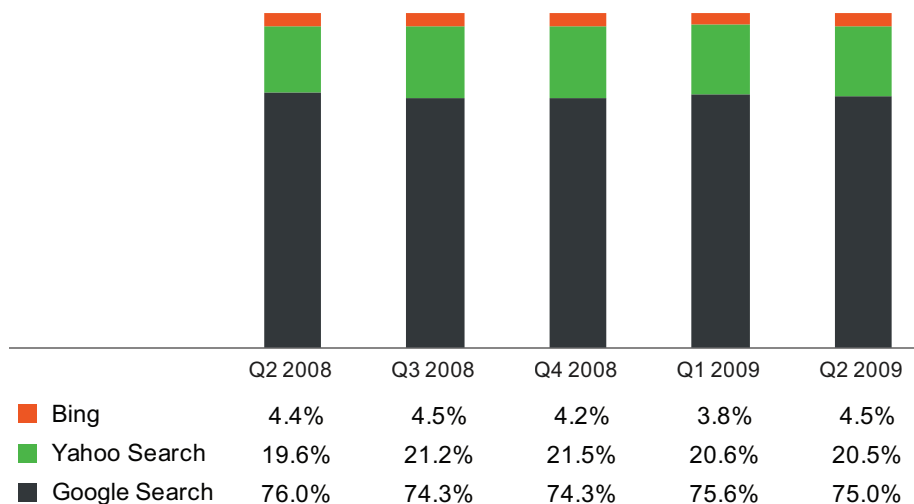
Overall market share in spend and clicks was relatively consistent with past quarters. The big news was Microsoft's Bing launch in June resulting in promising initial gains in market share. Live Search previously lost market share for two consecutive quarters, Q4 2008 and Q1 2009. Bing picked up click share immediately upon launch and sustained share gains over the course of June. Microsoft's new "decision engine" posted the strongest gains in the travel and financial services categories.

Market Share - Clicks and Spend

Click Share

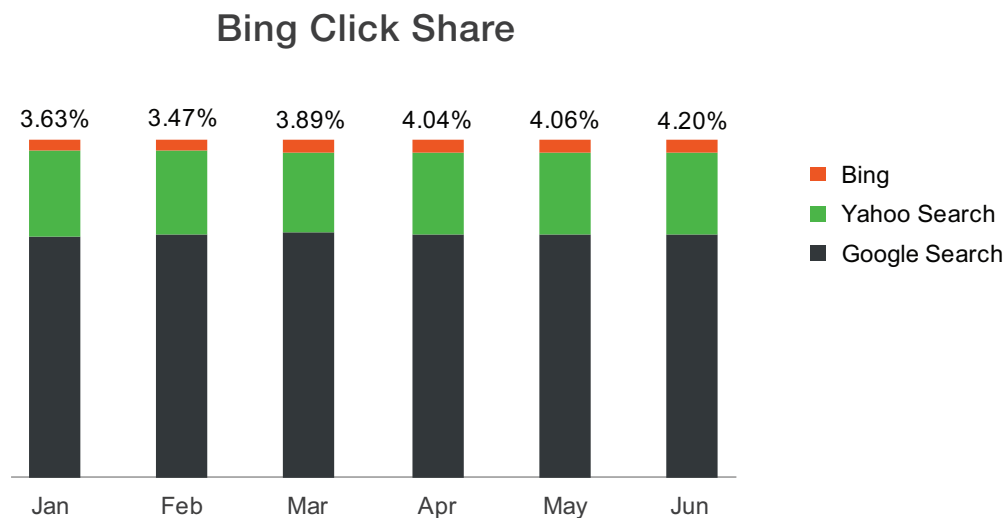


Spend Share



Click share was relatively stable and remained consistent with recent quarters. The largest move was made by Microsoft who posted gains in click share at the expense of Yahoo!. In regards to spend share, Google saw a slight drop while Bing and, to a lesser degree Yahoo!, gained ground. Microsoft's Bing spend gains came primarily at the expense of Google Search. A deeper look at cost per click (CPC) and efficiency trends will shed light on the reasons spend shifts are not in line with click share shifts.

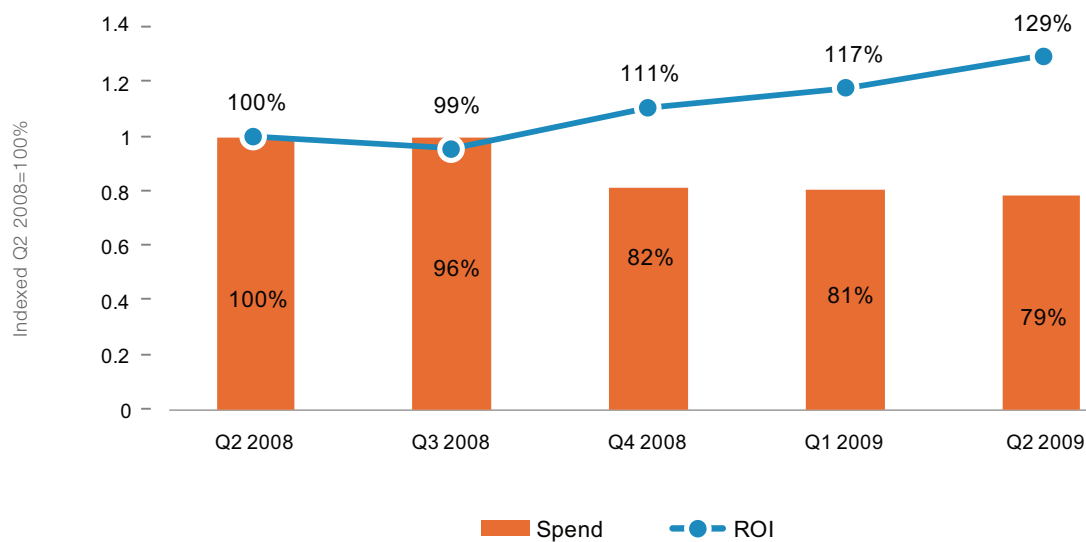
Performance of Bing



Microsoft launched Bing at the beginning of June 2009. An analysis of the performance of Microsoft Live Search and Bing during the first two quarters of 2009 shows that the launch of Bing increased Microsoft's click share by 5% month-over-month. While Microsoft had already begun gaining momentum in April 2009, the launch of Bing regained the spend share that Microsoft had lost between Q3 2008 and Q1 2009.

Bing's click gains were most significant in finance and travel increasing share by 17% and 10% respectively. Travel was the more expected gain given the revamped consumer experience in Bing. Finance may have gained momentum on the sub-category drill-down features Microsoft built into their new engine. While gains were made in finance and retail, the retail category was flat.

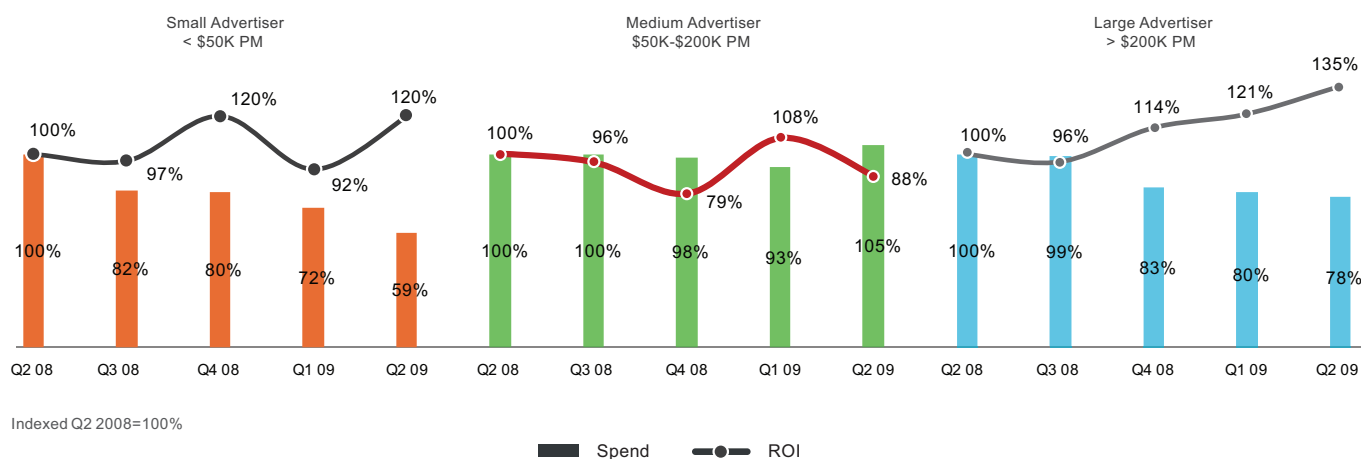
U.S. Spend and ROI



Overall, spend was down 21% YOY. This YOY drop in spend is a mild improvement from Q1's 23% YOY drop in spend. QOQ spend was down 3% indicating stabilization given the expected seasonal impact. ROI trends are a contrast to spend. ROI continued to increase QOQ as advertisers demanded increased efficiency, adjusting their budgets to compensate for the economic climate and to improve ROI.

In a more granular monthly view, spend and ROI both stabilized in Q2. This stabilization is likely caused by advertisers waiting for greater signs of economic recovery before they make any dramatic changes to their budgets and goals. A risk adverse market made few large-scale strategy shifts in Q2.

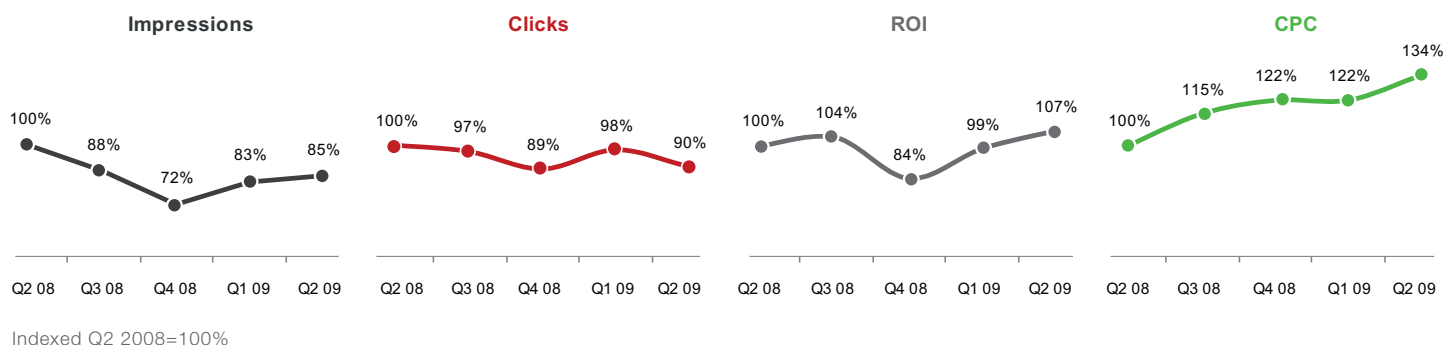
Spend and ROI: Large, Medium and Small Spenders



An analysis of spend trends in relation to advertiser size shows that the recession has hit smaller advertisers the hardest. Smaller advertisers have cut budgets in an effort to hit more aggressive ROI targets for more immediate effects on their bottom lines. In contrast, medium-sized advertisers, who are more dependant on the online channel and search to drive revenue but still have ad dollars to spend, increased search spend in Q2.

Medium size advertisers appeared to make an aggressive play for market share at the expense of ROI. Larger advertisers continued to play it safe and maintained budgets while capitalizing on less competitive markets and better ROI.

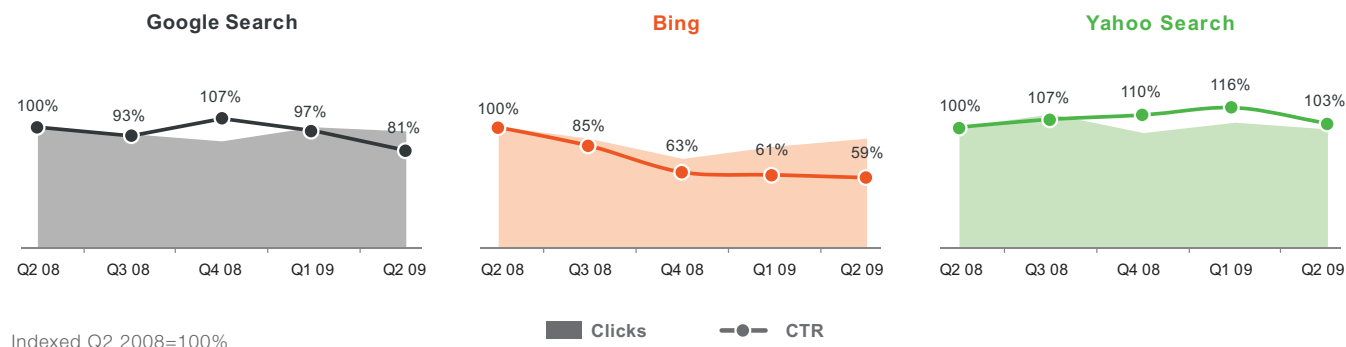
Google Content Performance



Google's contextual ad product, Google Content, showed additional growth as advertiser spend grew 47% YOY. A lower impression volume indicates that Google has been pruning their content network and providing advertisers with site exclusion tools in an effort to help increase quality and performance for advertisers, thereby increasing demand. And rising CPCs indicate that their efforts have successfully brought higher demand to their contextual ad product. ROI on Google Content showed a slight YOY and QOQ increase.

Key Metrics

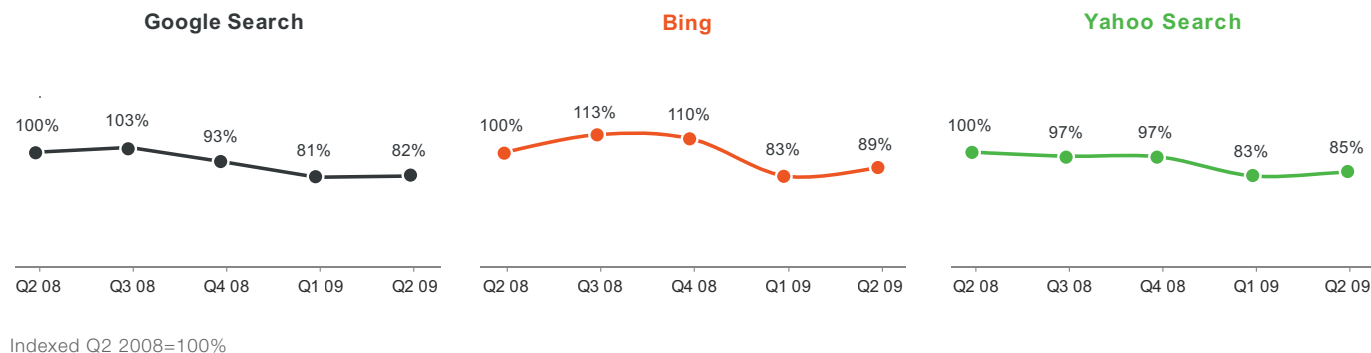
Clicks and Click-Through Rate



The click-through rate (CTR) is the ratio of clicks to displayed impressions. This metric is an indicator of the ratio of clicks that an impression is receiving related to its relevance to an ad and the search engine's ability to target a keyword query to the appropriate paid search ad. A higher CTR suggests that, on average, more users will respond to an ad upon viewing it.

Click volume remained relatively stable on all other search engines despite the surge in impressions on Google Search and Bing. Both Google and Bing saw a decrease in CTRs as their impression volume increased. It's impossible to eliminate impression noise from distribution partners and isolate CTR performance to main engine SERPs, but the rise in impressions and corresponding decrease in CTR may indicate that the engines were more aggressive in both distribution and matching technologies.

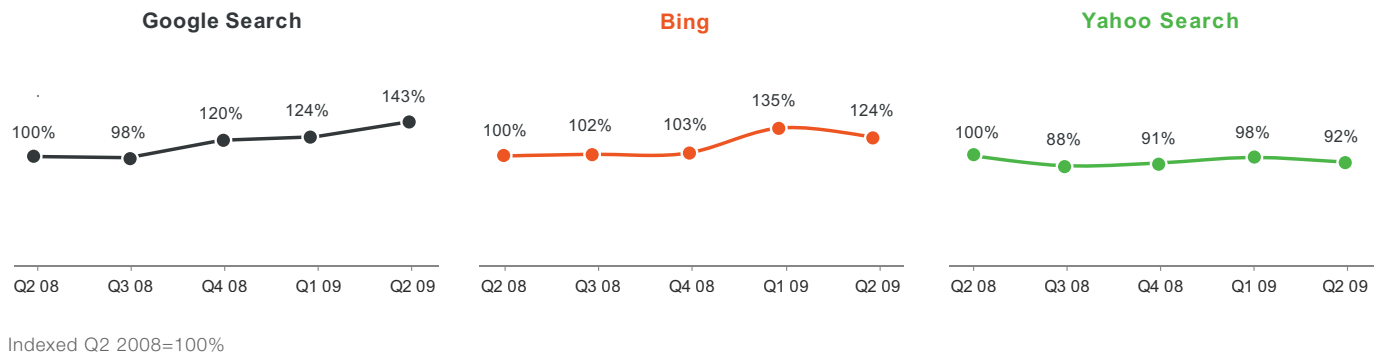
Cost Per Click



CPC refers to the amount of money that an advertiser pays search engines and other Internet publishers for a single click on its advertisement that brings one visitor to its Web site.

CPCs across all search engines declined YOY indicative of the broad economic impact. Search is clearly operating with lower demand Q2 2009 vs. Q2 2008. However, QOQ CPCs showed moderate growth. The moderate QOQ growth is a positive sign for the returning demand.

Return on Investment



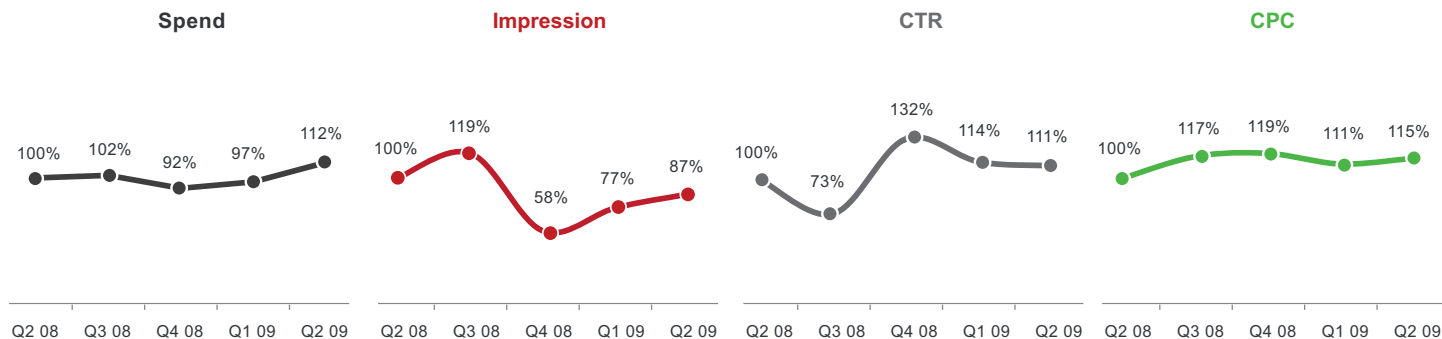
ROI is an indicator of a return that an advertiser is able to extract from buying paid search traffic. When controlled for spend, a higher ROI indicates that more revenue will be earned for the same advertising dollar. SEM is unique when compared to other advertising mediums as advertisers can measure ROI and dynamically change elements of their campaign based on those returns.

While the overall marketplace is operating at a 30% higher efficiency YOY, the individual search engine results varied greatly. YOY, Google Search is significantly more efficient, while Yahoo! Search is significantly less efficient. Yahoo!'s lower efficiency given stable click volume and lower CPCs indicates a likely decline in quality.

Interestingly, our data does not show advertiser spend allocations shifting dramatically to reflect the variances in search engine efficiency. Google showed a loss in spend share while experiencing a 43% increase in efficiency YOY and QOQ. However, given the variances in efficiency, it is likely that advertisers dictating spend allocations rather than letting optimization technologies determine optimal search engine spend will rethink their allocations in the coming quarters.

Vertical Results

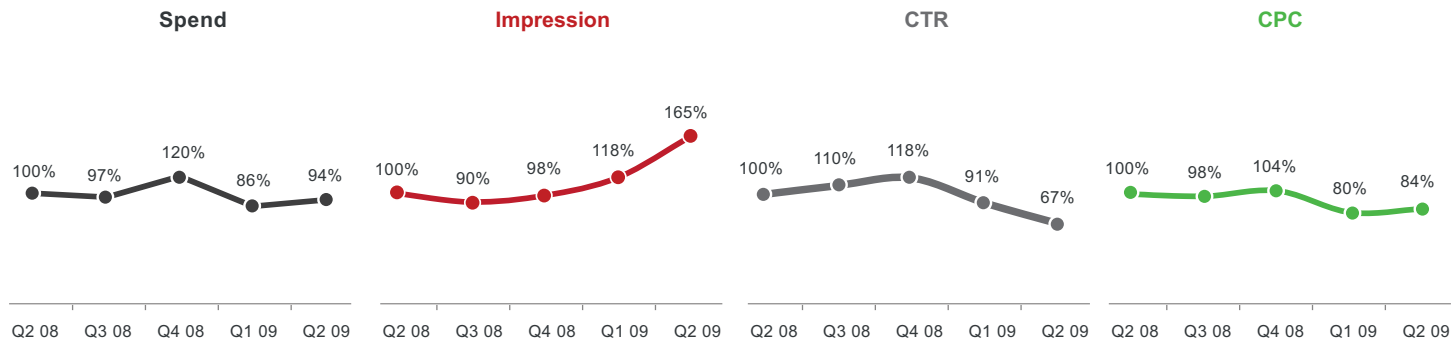
Automotive



Indexed Q2 2008=100%

Our data indicates that the automotive sector in search is in fact healthier than the market conditions suggest. Manufacturers are making a play for market share given the bankruptcies of GM and Chrysler. Impressions increased QOQ indicating a rise in shopping activity, a positive sign for U.S. auto sellers looking for market stabilization. Additionally, sellers of auto parts are doing extremely well as consumers maintain and repair their existing cars as opposed to purchasing new ones. It is important to note that our data for the automotive sector does not include data for any U.S. automakers, including GM and Chrysler, who have sharply reduced their advertising budgets.

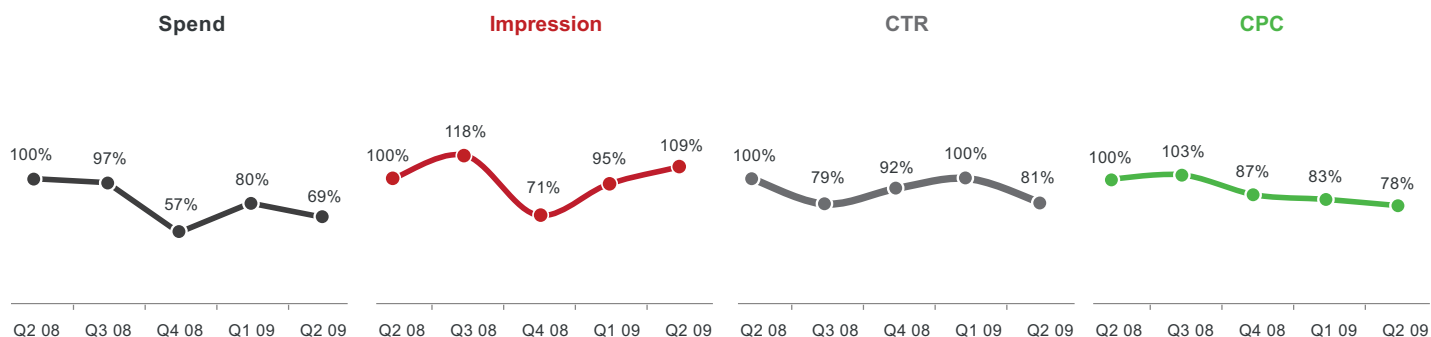
Retail



Indexed Q2 2008=100%

The retail sector has seen a large increase in impression volume and a corresponding decrease in CTRs. While these trends are indicative of comparison shopping as opposed to serious buyers, the increase in CPCs indicates a growing demand in the retail sector. After a poor Q1, the rising CPC in Q2 provides a glimmer of hope for the search retail sector.

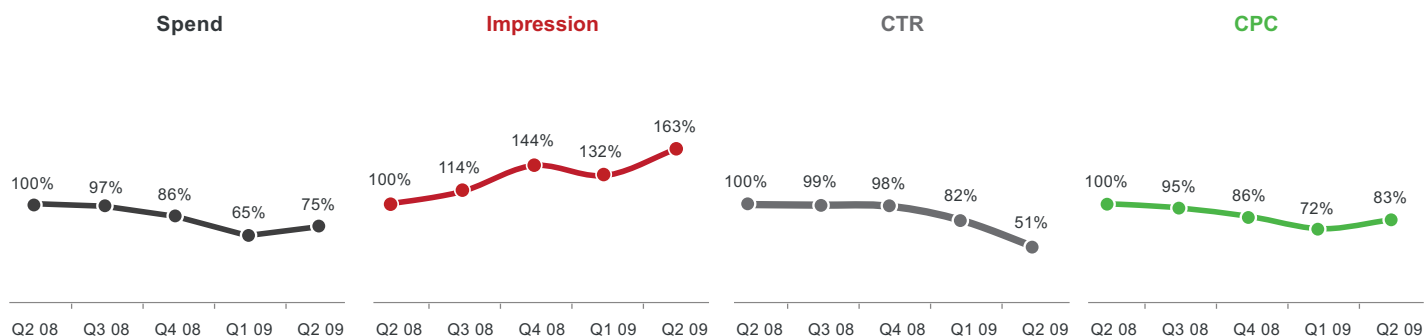
Travel



Indexed Q2 2008=100%

Due to the current economic climate, the travel category is experiencing a wave of consolidation. As the larger players in this sector attempt to increase their competitive edge by offering incentives such as waived booking fees, the smaller aggregators are being squeezed out of the marketplace. Spend has declined by 31% and CPCs have fallen by 22%. Lower revenue per booking in the travel sector has driven down the cost tolerance for search.

Finance



Indexed Q2 2008=100%

Spend in the finance sector is closely tied to the performance of the stock markets. As the markets declined between Q2 and Q4 2008, spend in the finance sector likewise declined. As the markets recovered in Q2 2009, spend in the finance sector also improved. In line with the trend noted in Q1 2009, impression volumes in this sector continued to soar due to two reasons: (1) consumers were looking for information, but not necessarily buying a product and (2) consumers in the buying cycle were less qualified.

Outlook

Due to the immediacy of action on the part of the consumer, and the measurement and response on the part of the advertiser, the state of paid search is very closely tied to the state of the economy. As the economy continues its slow recovery, we expect advertising budgets to be in line with the overall economic trends. As such, we expect Q3 2009 to be similar to Q2 2009 in regards to spend and ROI trends.

Performance in the various advertiser sectors will vary as the economic climate and the subsequent unique variables pressure each sector differently. The travel sector will see consolidation as the smaller players are purchased or go out of business. The finance sector will continue to move in line with the stock markets. And the retail and automotive sectors will react to shifts in consumer sentiment and spending.

We also expect to see larger movements within the individual search engines over the coming quarters. It is likely that Microsoft, given their investment, will continue to support the early success of Bing to drive market share. And Yahoo! appears vulnerable to spend share losses due to their trailing efficiency trends.

Methodology

This analysis was completed based on data from Efficient Frontier's Customer Index, which represents a subset of Efficient Frontier clients who have spend data for six consecutive quarters or more, to shed light on trends in search engine spending and performance on a year-over-year (YOY) and quarter-over-quarter (QOQ) basis. The Efficient Frontier Customer Index consists of a fixed sample of large scale U.S. search engine advertisers across multiple sectors, including finance, travel, retail and automotive.

About Efficient Frontier

Efficient Frontier is the worldwide market and technology leader in providing search engine marketing (SEM) solutions for large advertisers and agencies. Founded in 2002, Efficient Frontier pioneered the application of modern portfolio theory to SEM and today combines its core predictive modeling algorithms and bidding technology with comprehensive strategic and tactical value-added services to manage more than \$750 million in annual search spend globally. The largest and most sophisticated advertisers and agencies partner with Efficient Frontier to achieve and sustain optimal campaign performance and growth in highly complex and competitive search marketplaces. The company is headquartered in Sunnyvale, CA with offices in New York, the United Kingdom, France, Germany, and India, and technology licensing partnerships in Japan, Hong Kong and Australia. Efficient Frontier is a privately held company with funding from Redpoint Ventures and Cambrian Ventures. For more information, please visit www.efrontier.com and subscribe to the Efficient Frontier blog at blog.efrontier.com.